

**SPENCER
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Fund Financial Statements:	
Statement of Revenues, Expenses and Changes in Net Assets	G 21
Statement of Cash Flows	H 22
Notes to Financial Statements	23-31
Required Supplemental Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund	32
Budgetary Comparison Schedule - Budget to GAAP Reconciliation	33
Notes to Required Supplementary Information - Budgetary Reporting	34
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 35
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 36
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 37-39
Comparison of Taxes and Intergovernmental Revenues	4 40
Schedule of Expenditures of Federal Awards	5 41
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	42-43
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	44-45
Schedule of Findings and Questioned Costs	46-50

SPENCER COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Ross Brockshus	President	2003
Jane Kruse	Vice President	2003
Susan Harman		2005
Randy Van Dyke		2004
Scott DeGeest		2005

(After September, 2003 Election)

Ross Brockshus	President	2006
Randy Van Dyke	Vice President	2004
Susan Harman		2005
David Schlichtmeier		2006
Scott DeGeest		2005

SCHOOL OFFICIALS

Glen Lohman	Superintendent
Sharon Slawson	District Secretary
Ted Bauer	District Treasurer

Independent Auditor's Report

To The Board of Education of the
Spencer Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Spencer Community School District, Spencer, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Spencer Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated October 19, 2004 on our consideration of Spencer Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spencer Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed qualified opinions on those financial statements, due to the inability to satisfy ourselves about inventory quantities. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

October 19, 2004

SPENCER COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Spencer Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues decreased from \$14,268,111 in fiscal 2003 to \$13,881,471 in fiscal 2004, while General Fund expenditures increased from \$14,186,570 in fiscal year 2003 to \$14,476,445 in fiscal 2004.
- The decrease in General Fund revenues was attributable to state budget cuts, which not only affected state aid, but categorical funds as well. As a result of the state budget cuts, the AEA Flow Thru dollars were also reduced. The amount the District received for the Machinery and Equipment Levy was greatly reduced due to the state phase out of these dollars. Other reductions include the final payments of grants not being received in the current fiscal year, and the large amount of money being received in fiscal year 2003 for the PE grant we had received. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. The General Fund balance decreased due to the increase in expenditures for the union settlements for salaries and benefits. These settlements were compounded by the fact that the state forced an across the board reduction for the same fiscal year.
- Declining investment revenues resulting from a combination of declining interest rates and cash balances continued for the second consecutive year in fiscal year 2004. Just two years ago the District enjoyed investment revenues of \$63,404 in the General Fund. In fiscal year 2003 that dropped to \$39,058, with interest revenues for fiscal year 2004 suffering yet another decline to \$26,529.
- The District passed the SILO tax in January of 2004, which increased the overall income of the District by \$653,047 for the fiscal year ending 2004.
- The Board approved a new science addition at the existing High School. This addition will increase the overall expenditures of the District by approximately \$1,500,000.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are Government-wide *financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the Government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the *short term*, as well as, what remains for future spending.
- The statement for *proprietary funds* offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Spencer Community School District

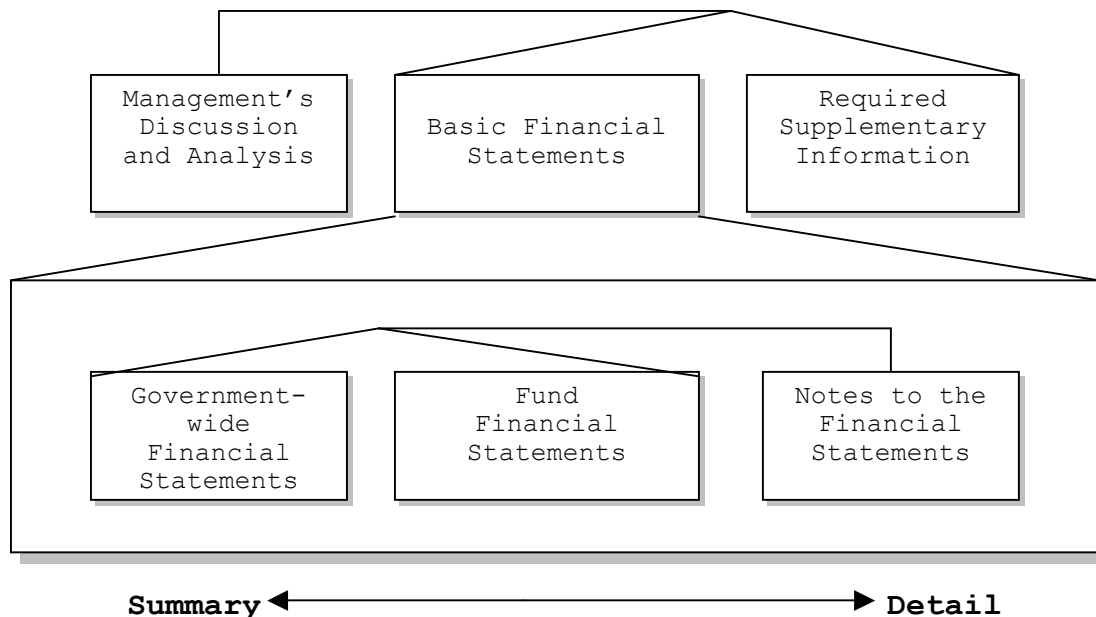


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> . Statement of net assets . Statement of activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> . Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Statements

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

Figure A-3 Condensed Statement of Net Assets (expressed in thousands)							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2004	2003	2004	2003	2004	2003	2003-04
	\$	\$	\$	\$	\$	\$	%
Current assets	19,227	8,912	120	82	19,347	8,994	53.51%
Capital assets	7,529	7,519	29	36	7,558	7,555	0.04%
Total assets	<u>26,756</u>	<u>16,431</u>	<u>149</u>	<u>118</u>	<u>26,905</u>	<u>16,549</u>	<u>38.49%</u>
Current liabilities	5,508	5,068	9	8	5,517	5,076	7.99%
Non-current liabilities	9,849	139	-	-	9,849	139	98.59%
Total liabilities	<u>15,357</u>	<u>5,207</u>	<u>9</u>	<u>8</u>	<u>15,366</u>	<u>5,215</u>	<u>66.06%</u>
Net Assets							
Invested in capital assets, net of related debt	7,529	7,519	29	36	7,558	7,555	0.04%
Restricted	1,719	1,395	-	-	1,719	1,395	18.85%
Unrestricted	2,151	2,310	111	74	2,262	2,384	-5.39%
Total net assets	<u>11,399</u>	<u>11,224</u>	<u>140</u>	<u>110</u>	<u>11,539</u>	<u>11,334</u>	<u>1.78%</u>

The District's combined net assets were less than at June 30, 2004 than June 30, 2003. The decrease occurred as a combined result of decreased tax revenue from state sources and increases in spending for payroll and related expenses.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	1,010	473	1,483
Operating grants, contributions and restricted interest	2,162	289	2,451
Capital grants, contributions and restricted interest	313	-	313
General revenues:			
Property tax	5,041	-	5,041
Local option sales tax	652	-	652
Unrestricted state grants	6,681	-	6,681
Unrestricted investment earnings	43	-	43
Other	10	-	10
Total revenues	<u>15,912</u>	<u>762</u>	<u>16,674</u>
Program expenses:			
Governmental activities:			
Instruction	10,747	-	10,747
Support Services	3,922	-	3,922
Non-instructional programs	68	732	800
Other expenses	1,000	-	1,000
Total expenses	<u>15,737</u>	<u>732</u>	<u>16,469</u>
Change in net assets	<u>175</u>	<u>30</u>	<u>205</u>

Property tax, local option sales tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$15,912,166 and expenses were \$15,723,309. In a difficult budget year the District balanced the budget by reducing discretionary spending and seeking out alternative revenue sources, such as grants.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	10,747	8,190
Support Services	3,922	3,898
Non-instructional programs	68	68
Other expenses	<u>1,000</u>	<u>96</u>
Totals	<u>15,737</u>	<u>12,252</u>

- The cost financed by users of the District's programs was \$1,009,929.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,475,276.
- The net cost of governmental activities was financed with \$5,040,619 in property tax, \$6,681,246 in state foundation aid, \$652,165 in local option sales tax and \$26,529 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$761,809 and expenses were \$731,673.

The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Increases in Federal meal reimbursements and cost containment measures contributed to the nutrition fund financial status.

Financial Analysis of the District's Funds

As previously noted the Spencer Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of 13,921,171, above last year's ending fund balances of \$3,844,673.

This is primarily due to \$9,900,000 of general obligation and revenue bonds sold just before the end of year. Proceeds will be used for the construction of a new middle school building.

Governmental Fund Highlights

- The District's General Fund balance was reduced due to a combination of decreased state tax revenues and increased payroll expense.
- The maintaining of funds was made even more difficult with the state eliminating the Phase III money previously received by the District.

- With the available PPEL dollars the District was able to start construction on a science wing addition to the high school.
- The LOSST tax dollars will be used to pay the debt service requirements of the recently issued revenue bonds as well as assisting in paying for infrastructure projects throughout the District.

Proprietary Fund Highlights

Federal reimbursements increased due to price increases in Federal nutrition programs.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 32 and 34.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$264,000 greater than the total budgeted receipts, a variance of less than 2%. The most significant change resulted in the District receiving less in various components of state aid than originally anticipated. This was offset by higher than anticipated revenue from miscellaneous revenues.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending through its line item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2004, the District has invested more than \$14,000,000. In a broad range of capital assets including school buildings, athletic facilities, central kitchen, maintenance and administrative buildings, computer and audiovisual equipment, maintenance equipment, school buses, library holdings and textbooks. Total depreciation expense for the year exceeded \$560,000.

Long - Term Debt

The District recently issued \$4,000,000 in general obligation bonds for the construction of a new middle school building. These bonds have an average interest rate of 4.65%. They will be paid off over the next 20 years.

The District recently issued \$5,900,000 in revenue bonds for the construction of the new middle school building. These funds have an average interest rate of 4.18%. They will be paid off over the next 10 years with proceeds from the 1% Clay County school infrastructure local option sales tax.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District passed bond issues in order to build a new Middle School. The General Obligations School Bond issue in the amount of \$4,000,000 was passed on April 27, 2004 and the closing on the bonds was slated for July 2004. In addition the issue for \$5,900,000 in School Infrastructure Sales & Service Tax Revenue Bonds was also passed on April 27, 2004 and the closing date also set for July of 2004.
- The District passed the Local Option Sales & Services Tax for School Infrastructure Capital Projects Fund tax in January of 2004, and will realize an income of approximately \$1,152,932 from this tax for the 2004-05 school year.
- The District is slated to lose the Comprehensive School Reform Demonstration Grant that was awarded to Lincoln Elementary School in the 2002-03 school year. This grant had provided an additional \$200,000 to the District to enhance student achievement.
- The District will continue to seek out new sources of revenue, such as At-Risk Allowable Growth, Instructional Support Levy, and other grants that may be available for additional revenues.
- Future enrollment stability is a critical element in maintaining a sound financial foundation. Although the District did have an increase of 5 students in the 2004-05 fiscal year, the budget enrollment for the 2005-06 declined by 79 students. This fact coupled with decreased state funding obviously does not bode well for the District's financial health. This decrease in funding will dramatically affect the General fund cash and unspent balances, along with having a negative affect on personnel and programming offered by the District.
- Iowa law requires that unsettled salary negotiations for teachers to mandatory arbitration. Invariably arbitrated settlement are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). Employee wage and benefit settlements exceeding the growth rate in State funding will continued to force the District to consider additional budget reductions to balance the General Fund budget. A solution needs to be found.
- Health insurance continues to be a very costly item to the District. Even though employees in regard to deductible, and coinsurance have made concessions, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable to many.
- Once again unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. No Child Left Behind, Student Achievement, Teacher Quality Act, and GASB 34 to name a few.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Greg Ebeling, Superintendent, Spencer Community School District, 23 East 7th Street, Spencer, Iowa 51301.

Basic Financial Statements

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	4,077,414	88,580	4,165,994
Bond proceeds held by trustee	9,887,641	-	9,887,641
Receivables:			
Property tax			
Current year	32,403	-	32,403
Succeeding year	5,024,983	-	5,024,983
Due from other governments	160,559	-	160,559
Other receivables	78	6,078	6,156
Inventories	44,601	25,540	70,141
Capital assets, net of accumulated depreciation (note 6)	7,528,830	29,219	7,558,049
Total assets	<u>26,756,509</u>	<u>149,417</u>	<u>26,905,926</u>
Liabilities			
Accounts payable	223,414	-	223,414
Retainage payable	8,673	-	8,673
Accrued salary and benefits	49,438	-	49,438
Unearned revenue	-	9,193	9,193
Deferred revenue:			
Succeeding year property tax	5,024,983	-	5,024,983
Long term liabilities:			
Portion due within one year:			
Compensated absences	31,869	-	31,869
Early retirement	44,808	-	44,808
General obligation bonds	125,000	-	125,000
Early retirement	73,899	-	73,899
General obligation bonds	3,875,000	-	3,875,000
Revenue bonds	5,900,000	-	5,900,000
Total liabilities	<u>15,357,084</u>	<u>9,193</u>	<u>15,366,277</u>
Portion due after one year:			
Net Assets			
Invested in capital assets, net of related debt	7,528,830	29,219	7,558,049
Restricted for:			
Management levy	178,977	-	178,977
Physical plant and equipment levy	1,540,058	-	1,540,058
Unrestricted	2,151,560	111,005	2,262,565
Total fund equity and other credits	<u>11,399,425</u>	<u>140,224</u>	<u>11,539,649</u>
Total liabilities and fund equity and other credits	<u>26,756,509</u>	<u>149,417</u>	<u>26,905,926</u>

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues						Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$	\$
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	6,757,453	612,571	577,412	-	(5,567,470)	-	(5,567,470)
Special instruction	2,715,104	397,358	549,690	-	(1,768,056)	-	(1,768,056)
Other instruction	1,274,253	-	420,275	-	(853,978)	-	(853,978)
	<u>10,746,810</u>	<u>1,009,929</u>	<u>1,547,377</u>	<u>-</u>	<u>(8,189,504)</u>	<u>-</u>	<u>(8,189,504)</u>
Support services:							
Student services	429,090	-	4,426	-	(424,664)	-	(424,664)
Instructional staff services	509,008	-	-	-	(509,008)	-	(509,008)
Administration services	1,124,952	-	-	-	(1,124,952)	-	(1,124,952)
Operation and maintenance of plant services	1,216,383	-	-	-	(1,216,383)	-	(1,216,383)
Transportation services	642,006	-	18,993	-	(623,013)	-	(623,013)
	<u>3,921,439</u>	<u>-</u>	<u>23,419</u>	<u>-</u>	<u>(3,898,020)</u>	<u>-</u>	<u>(3,898,020)</u>
Non-instructional programs	<u>68,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,357)</u>	<u>-</u>	<u>(68,357)</u>
Other expenditures:							
Facilities acquisition	146,698	-	-	313,269	166,571	-	166,571
AEA flowthrough	591,211	-	591,211	-	-	-	-
Depreciation (unallocated) *	262,440	-	-	-	(262,440)	-	(262,440)
	<u>1,000,349</u>	<u>-</u>	<u>591,211</u>	<u>313,269</u>	<u>(95,869)</u>	<u>-</u>	<u>(95,869)</u>
Total governmental activities	15,736,955	1,009,929	2,162,007	313,269	(12,251,750)	-	(12,251,750)

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues				Governmental Activities	Business-Type Activities	Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest			
	\$	\$	\$	\$	\$	\$	\$
Business-Type activities:							
Non-instructional programs							
Nutrition services	731,673	472,517	289,292	-	-	30,136	30,136
Total	<u>16,468,628</u>	<u>1,482,446</u>	<u>2,451,299</u>	<u>313,269</u>	<u>(12,251,750)</u>	<u>30,136</u>	<u>(12,221,614)</u>
General revenues:							
Property tax levied for:							
General purposes					4,355,747	-	4,355,747
Management Fund					261,123	-	261,123
Capital outlay					423,749	-	423,749
School Infrastructure Local							
Option Sales Tax					652,165	-	652,165
Unrestricted state grants					6,681,246	-	6,681,246
Unrestricted investment earnings					42,512	-	42,512
Other					<u>10,419</u>	<u>-</u>	<u>10,419</u>
Total general revenue					<u>12,426,961</u>	<u>-</u>	<u>12,426,961</u>
Change in net assets					175,211	30,136	205,347
Net assets beginning of year					<u>11,224,214</u>	<u>110,088</u>	<u>11,334,302</u>
Net assets end of year					<u>11,399,425</u>	<u>140,224</u>	<u>11,539,649</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,548,388	1,537,401	639,970	351,655	4,077,414
Bond proceeds held by trustee	-	-	9,887,641	-	9,887,641
Receivables:					
Property tax					
Current year	28,047	2,657	-	1,699	32,403
Succeeding year	4,416,435	408,548	-	200,000	5,024,983
Due from other governments	160,559	-	-	-	160,559
Other receivables	78	-	-	-	78
Inventories	44,601	-	-	-	44,601
Total assets	<u>6,198,108</u>	<u>1,948,606</u>	<u>10,527,611</u>	<u>553,354</u>	<u>19,227,679</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	69,333	-	145,286	8,795	223,414
Retainage payable	-	-	8,673	-	8,673
Accrued salary and benefits	49,438	-	-	-	49,438
Deferred revenue:					
Succeeding year property tax	4,416,435	408,548	-	200,000	5,024,983
Total liabilities	<u>4,535,206</u>	<u>408,548</u>	<u>153,959</u>	<u>208,795</u>	<u>5,306,508</u>
Fund balances:					
Reserved for:					
Inventory	44,601	-	-	-	44,601
Construction project	-	-	9,887,641	-	9,887,641
Unreserved	1,618,301	1,540,058	486,011	344,559	3,988,929
Total fund balances	<u>1,662,902</u>	<u>1,540,058</u>	<u>10,373,652</u>	<u>344,559</u>	<u>13,921,171</u>
Total liabilities and fund balances	<u>6,198,108</u>	<u>1,948,606</u>	<u>10,527,611</u>	<u>553,354</u>	<u>19,227,679</u>

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 13,921,171
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,528,830
Long-term liabilities, including compensated absences and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Compensated absences	(31,869)
Early retirement	(118,707)
General obligation bonds	(4,000,000)
Sales tax revenue bonds	<u>(5,900,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 11,399,425</u></u>

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources					
Local tax	4,355,747	423,749	652,165	261,123	5,692,784
Tuition	993,454	-	-	-	993,454
Other	187,917	327,204	883	361,188	877,192
State sources	7,855,179	2,666	-	1,717	7,859,562
Federal sources	489,174	-	-	-	489,174
Total revenues	<u>13,881,471</u>	<u>753,619</u>	<u>653,048</u>	<u>624,028</u>	<u>15,912,166</u>
Expenditures:					
Instruction					
Regular instruction	6,650,701	102,069	-	170,685	6,923,455
Special instruction	2,715,104	-	-	-	2,715,104
Other instruction	908,487	-	-	365,766	1,274,253
	<u>10,274,292</u>	<u>102,069</u>	<u>-</u>	<u>536,451</u>	<u>10,912,812</u>
Support services					
Student services	416,040	-	-	13,050	429,090
Instructional staff services	503,451	-	-	5,557	509,008
Administration services	1,100,224	-	-	23,705	1,123,929
Operation and maintenance of plant services	1,207,817	-	-	8,566	1,216,383
Transportation services	315,379	54,220	-	22,954	392,553
	<u>3,542,911</u>	<u>54,220</u>	<u>-</u>	<u>73,832</u>	<u>3,670,963</u>
Non-instructional programs	<u>68,031</u>	<u>-</u>	<u>-</u>	<u>326</u>	<u>68,357</u>
Other expenditures:					
Facilities acquisition and construction services	-	312,929	167,037	-	479,966
AEA flowthrough	591,211	-	-	-	591,211
	<u>591,211</u>	<u>312,929</u>	<u>167,037</u>	<u>-</u>	<u>1,071,177</u>
Total expenditures	<u>14,476,445</u>	<u>469,218</u>	<u>167,037</u>	<u>610,609</u>	<u>15,723,309</u>

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (Deficiency) of revenues over (under) expenditures	(594,974)	284,401	486,011	13,419	188,857
Other financing sources:					
General obligation bonds issued	-	-	4,000,537	-	4,000,537
Revenue bonds issued	-	-	5,887,104	-	5,887,104
Total other financing sources	-	-	9,887,641	-	9,887,641
Net change in fund balances	(594,974)	284,401	10,373,652	13,419	10,076,498
Fund balances beginning of year	2,257,876	1,255,657	-	331,140	3,844,673
Fund balances end of year	1,662,902	1,540,058	10,373,652	344,559	13,921,171

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ 10,076,498

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 576,128	
Depreciation expense	<u>(566,113)</u>	10,015

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets	(9,900,000)
--	-------------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	\$ (10,219)	
Compensated absences	<u>(1,083)</u>	<u>(11,302)</u>

Change in net assets of governmental activities (Exhibit B) \$ 175,211

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>472,517</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	278,286
Benefits	84,764
Services	1,502
Supplies	359,493
Other	990
Depreciation	<u>6,638</u>
Total operating expenses	<u>731,673</u>
Operating (loss)	<u>(259,156)</u>
Non-operating revenues:	
Interest on investments	710
State sources	9,542
Federal sources	<u>279,040</u>
	<u>289,292</u>
Change in net assets	30,136
Net assets beginning of year	<u>110,088</u>
Net assets end of year	<u><u>140,224</u></u>

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	461,868
Cash received from sale of services	4,262
Cash payments to employees for services	(363,050)
Cash payments to suppliers for goods or services	(305,950)
Net cash provided by (used in) operating activities	<u>(202,870)</u>
Cash flows from non-capital financing activities:	
State grants received	9,542
Federal grants received	<u>257,421</u>
Net cash provided by non-capital financing activities	<u>266,963</u>
Cash flows from investing activities:	
Interest on investments	<u>710</u>
Net increase (decrease) in cash and cash equivalents	64,803
Cash and cash equivalents beginning of year	<u>23,777</u>
Cash and cash equivalents end of year	<u><u>88,580</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(259,156)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	6,638
Commodities used	47,871
(Increase) in other receivables	(6,078)
Decrease in inventory	6,662
Increase in unearned revenue	1,193
	<u>(202,870)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>88,580</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$47,871.

See notes to financial statements.

SPENCER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Spencer Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Spencer, Iowa, and agricultural territory in Clay County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Spencer Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Spencer Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clay County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - This represents money received by the District but not yet earned. It includes School Nutrition Fund lunch ticket credits of \$8,000.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$2,421 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	500,000	-	-	500,000
Capital assets being depreciated:				
Buildings	9,263,217	166,013	-	9,429,230
Improvements other than buildings	596,559	6,213	-	602,772
Furniture and Equipment	3,928,288	230,441	151,708	4,007,021
Construction in progress	-	173,461	-	173,461
Total capital assets being depreciated	13,788,064	576,128	151,708	14,212,484
Less accumulated depreciation for:				
Buildings	3,837,080	183,985	-	4,021,065
Improvements other than buildings	262,590	14,738	-	277,328
Furniture and Equipment	2,669,579	367,390	151,708	2,885,261
Total accumulated depreciation	6,769,249	566,113	151,708	7,183,654
Total capital assets being depreciated, net	7,018,815	10,015	-	7,028,830
Governmental activities, capital assets, net	7,518,815	10,015	-	7,528,830

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	282,646	-	-	282,646
Less accumulated depreciation	<u>246,789</u>	<u>6,638</u>	<u>-</u>	<u>253,427</u>
Business type activities capital assets, net	<u>35,857</u>	<u>(6,638)</u>	<u>-</u>	<u>29,219</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Transportation

Unallocated

303,673

262,440

566,113

Business Type activities:

Food service operations

6,638

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$547,169, \$519,019, and \$521,277 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$591,211 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Spencer Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$1,799,124.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Spencer Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation bonds	\$ -	4,000,000	-	4,000,000	125,000
Revenue bonds	-	5,900,000	-	5,900,000	-
Early retirement	<u>47,443</u>	<u>126,410</u>	<u>55,146</u>	<u>118,707</u>	<u>44,808</u>
Total	<u>\$47,443</u>	<u>10,026,410</u>	<u>55,146</u>	<u>10,018,707</u>	<u>168,808</u>

(8) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages of 56 and 62 when the benefit is elected and must have completed at least 15 years of continuous full-time service in the district. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a percentage of the difference between BA step 04 and the employee's step on the salary schedule for the year in which the application is submitted. The percentage starts at 65% for those eligible employees with 15 years of continuous service and increases by 5% for each additional year of service to a maximum of 90% for those employee's cost of health and major medical insurance until the benefit amount is exhausted. Early retirement benefits paid during the year ended June 30, 2004 totaled \$55,146. The cost of early retirement benefits expected to be paid both currently and long-term are recorded as long-term liabilities on the Statement of Net Assets (Exhibit A).

(9) General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates %	Interest \$	Principal \$	Total \$
2005	4.00	159,282	125,000	284,282
2006	3.65	168,762	135,000	303,762
2007	3.65	163,835	140,000	303,835
2008	3.65	158,725	150,000	308,725
2009	3.85	153,250	155,000	308,250
2010-2014	4.00-4.30	666,738	880,000	1,546,738
2015-2019	4.25-4.45	462,287	1,080,000	1,542,287
2020-2024	4.55-4.90	<u>197,435</u>	<u>1,335,000</u>	<u>1,532,435</u>
Total		<u>2,130,314</u>	<u>4,000,000</u>	<u>6,130,314</u>

(10) Revenue Bonds Payable

Details of the District's June 30, 2004 local option sales and service tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			
	Rates %	Interest \$	Principal \$	Total \$
2005	-	112,524	-	112,524
2006	-	225,048	-	225,048
2007	3.25	225,048	650,000	875,048
2008	3.50	203,923	670,000	873,923
2009	3.75	180,473	690,000	870,473
2010-2012	3.90-4.10	<u>480,659</u>	<u>3,890,000</u>	<u>4,370,659</u>
Total		<u>1,427,675</u>	<u>5,900,000</u>	<u>7,327,675</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- c) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

(11) Commitments

The voters of the District approved the sale of \$4,000,000 of general obligation bonds to be used for the construction and equipping of a new middle school building. These bonds were sold on June 28, 2004 and are dated July 1, 2004.

The District approved the sale of School Infrastructure Local Option Sales Tax revenue bonds in the amount of \$5,900,000. The proceeds of this issue are also to be used in the construction and equipping of a new middle school building. These bonds were also sold on June 28, 2004 and are dated July 1, 2004.

The District approved the purchase of \$94,625 of computers during the year ending June 20, 2004 that will be delivered and paid for in the next fiscal year.

The District approved the purchase of \$186,096 of cabinetry during the year ending June 30, 2004 that will be delivered and paid for in the next fiscal year.

The District is currently adding a science wing to the high school building. As of June 30, 2004 the following commitments had been made.

Total bids awarded	\$1,245,692
Total project completed	173,461
Total amounts retained	8,673
Total amounts paid to date	64,468
Total amount currently payable	100,320
Balance to complete	\$1,072,231

Funds for this project are to be taken from existing Property Plant and Equipment Levy Fund monies.

Required Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	7,557,264	466,840	8,024,104	7,078,043	7,078,043	946,061
State sources	7,859,562	9,542	7,869,104	8,370,791	8,370,791	(501,687)
Federal sources	489,174	257,421	746,595	927,000	927,000	(180,405)
Total receipts	<u>15,906,000</u>	<u>733,803</u>	<u>16,639,803</u>	<u>16,375,834</u>	<u>16,375,834</u>	<u>263,969</u>
Disbursements:						
Instruction	10,673,242	-	10,673,242	12,039,786	12,039,786	1,366,544
Support services	3,670,963	-	3,670,963	4,069,294	4,069,294	398,331
Non-instructional programs	68,357	669,000	737,357	855,964	855,964	118,607
Other expenditures	1,071,177	-	1,071,177	1,998,689	1,998,689	927,512
Total disbursements	<u>15,483,739</u>	<u>669,000</u>	<u>16,152,739</u>	<u>18,963,733</u>	<u>18,963,733</u>	<u>2,810,994</u>
Excess (deficiency) of receipts over (under) disbursements	422,261	64,803	487,064	(2,587,899)	(2,587,899)	3,074,963
Other financing sources (uses)	<u>9,887,641</u>	<u>-</u>	<u>9,887,641</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	10,309,902	64,803	10,374,705	(2,587,899)	(2,587,899)	3,074,963
Balance beginning of year	<u>3,655,153</u>	<u>23,777</u>	<u>3,678,930</u>	<u>2,900,839</u>	<u>2,900,839</u>	<u>3,347,565</u>
Balance end of year	<u><u>13,965,055</u></u>	<u><u>88,580</u></u>	<u><u>14,053,635</u></u>	<u><u>312,940</u></u>	<u><u>312,940</u></u>	<u><u>6,422,528</u></u>

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	15,906,000	6,166	15,912,166
Expenditures	15,483,739	239,570	15,723,309
Net	422,261	(233,404)	188,857
Other financing sources (uses)	9,887,641	-	9,887,641
Beginning fund balances	3,655,153	189,520	3,844,673
Ending fund balances	13,965,055	(43,884)	13,921,171

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	733,803	28,006	761,809
Expenditures	669,000	62,673	731,673
Net	64,803	(34,667)	30,136
Beginning fund balances	23,777	86,311	110,088
Ending fund balances	88,580	51,644	140,224

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Other Supplementary Information

SPENCER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	177,278	174,377	351,655
Property tax receivable:			
Current year	1,699	-	1,699
Succeeding year	200,000	-	200,000
Total assets	<u>378,977</u>	<u>174,377</u>	<u>553,354</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	-	8,795	8,795
Deferred revenue:			
Succeeding year property tax	200,000	-	200,000
	<u>200,000</u>	<u>8,795</u>	<u>208,795</u>
Fund equity:			
Unreserved, undesignated fund balance	178,977	165,582	344,559
	<u>178,977</u>	<u>165,582</u>	<u>344,559</u>
Total liabilities and fund equity	<u>378,977</u>	<u>174,377</u>	<u>553,354</u>

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	261,123	-	261,123
Other	1,405	359,783	361,188
State sources	1,717	-	1,717
Total revenues	<u>264,245</u>	<u>359,783</u>	<u>624,028</u>
Expenditures:			
Instruction:			
Regular instruction	170,685	-	170,685
Co-curricular instruction	-	365,766	365,766
Support services:			
Student support services	13,050	-	13,050
Instructional staff support	5,557	-	5,557
Administration services	23,705	-	23,705
Plant operation and maintenance	8,566	-	8,566
Student transportation	2,582	20,372	22,954
Non-instructional programs:			
Food service operations	326	-	326
Total expenditures	<u>224,471</u>	<u>386,138</u>	<u>610,609</u>
Excess (deficiency) of revenues over (under) expenditures	39,774	(26,355)	13,419
Fund balances beginning of year	<u>139,203</u>	<u>191,937</u>	<u>331,140</u>
Balance end of year	<u><u>178,977</u></u>	<u><u>165,582</u></u>	<u><u>344,559</u></u>

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
System Wide				
Assemblies	250	3	-	253
Concessions	614	24,340	24,063	891
Special Events	983	12	-	995
Staff Courtesy	8,820	1,090	2,624	7,286
Drug Free Fundraiser	2,225	26	-	2,251
Clearing	-	106	106	-
	<u>12,892</u>	<u>25,577</u>	<u>26,793</u>	<u>11,676</u>
Middle School				
Band	1,122	472	562	1,032
Special Education Fundraiser	50	1	-	51
Staff Courtesy	793	1,029	974	848
Student Council	3,004	2,793	2,382	3,415
Photo Club	3,447	8,395	6,442	5,400
Computer Club	14,889	-	14,889	-
	<u>23,305</u>	<u>12,690</u>	<u>25,249</u>	<u>10,746</u>
Elementary				
Jump Rope for Heart	5,545	63	186	5,422
Art/Technology	766	9	-	775
Reading	389	5	-	394
Success	128	1	-	129
Take Home Bags	50	-	-	50
Fairview:				
Photo Club	672	487	286	873
Art/Technology	-	885	543	342
Jefferson:				
Staff Courtesy	45	-	-	45
Photo Club	161	205	141	225
Johnson:				
Staff Courtesy	642	1,279	1,063	858
Photo Club	324	632	750	206
Johnson Store	92	-	21	71
Art/Technology	1,011	12	-	1,023
Computer Club	1,561	49	-	1,610

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
Elementary (continued):				
Lincoln:				
Special Education Fundraiser	2,535	29	53	2,511
Staff Courtesy	263	-	238	25
Environment Club	375	4	34	345
Photo Club	1,033	479	192	1,320
Computer Club	381	5	-	386
	<u>15,973</u>	<u>4,144</u>	<u>3,507</u>	<u>16,610</u>
High School				
Drama	5,704	13,954	13,812	5,846
Drama Donation	-	4,987	4,987	-
Speech Club	187	10,249	10,436	-
Vocal	9,345	54,680	62,435	1,590
Vocal Donation	-	5,059	-	5,059
Band	203	1,903	2,106	-
Intramurals	609	513	-	1,122
Track	7,259	8,277	7,836	7,700
Cross Country	6,225	2,758	6,293	2,690
Boys Basketball	7,764	6,239	7,612	6,391
Football	12,977	28,153	25,611	15,519
Baseball	6,781	8,984	9,721	6,044
Boys Swimming	2,598	2,250	2,355	2,493
Boys Tennis	1,560	1,989	2,112	1,437
Boys Golf	1,970	1,619	1,767	1,822
Boys Soccer	3,979	2,444	2,641	3,782
Wrestling	7,572	4,904	6,047	6,429
Girls Basketball	6,402	7,086	6,090	7,398
Volleyball	4,648	4,491	4,838	4,301
Softball	7,299	5,178	5,829	6,648
Girls Swimming	3,331	4,094	6,341	1,084
Girls Tennis	2,345	1,920	2,291	1,974
Girls Golf	1,408	1,564	1,250	1,722
Girls Soccer	5,653	4,135	6,186	3,602
General Athletics	194	10,542	9,635	1,101
Athletic Revolving	180	14,859	12,823	2,216
Tourney and Hosted Events	378	24,322	24,044	656
FFA	6,603	4,060	7,120	3,543
Business Management	168	2,839	2,861	146
Staff Courtesy	351	3,394	3,345	400

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
High School (continued):				
Custodial	203	1,497	1,635	65
Environment Club	191	2	-	193
Student Council	2,043	11,343	10,799	2,587
Pep Club	1,886	13,208	8,466	6,628
German Club	7,348	2,952	7,755	2,545
Spanish Club	9,743	4,575	7,174	7,144
Photo Club	316	2,913	2,948	281
Art	520	6	-	526
Class of 2004	1,101	199	1,300	-
Class of 2005	-	4,882	2,818	2,064
Mock Trial	507	1,142	1,649	-
Debate Club	2,182	5,674	6,338	1,518
Spencerian	34	21,533	21,283	284
	<u>139,767</u>	<u>317,372</u>	<u>330,589</u>	<u>126,550</u>
Total	<u>191,937</u>	<u>359,783</u>	<u>386,138</u>	<u>165,582</u>

See accompanying independent auditor's report.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function

All Governmental Fund Types

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
Property tax	5,027,648	4,845,170	4,385,796	4,195,104
Local option sales tax	652,165	-	-	-
Mobile home tax	12,971	14,065	12,929	13,060
	<u>5,692,784</u>	<u>4,859,235</u>	<u>4,398,725</u>	<u>4,208,164</u>
State sources:				
State foundation aid	6,652,430	6,688,131	6,726,142	6,939,086
M & E replacement	24,433	57,788	62,934	57,657
School improvement and technology funding	-	-	41,930	126,474
Education Excellence Program:				
Phase I	19,119	21,325	21,325	21,325
Phase II	159,173	162,448	167,612	172,406
Phase III	-	40,364	95,783	96,057
Iowa Early Intervention Block Grant	115,408	110,213	111,268	78,068
AEA flow-through	591,211	616,973	619,975	636,839
Non-public transportation aid	18,993	24,088	30,200	30,342
Non-public textbook aid	3,184	2,953	7,492	7,310
At risk program grants	65,773	67,967	69,546	85,545
Vocational education aid	42,012	38,237	20,000	23,841
Revenue in lieu of taxes - military credit	8,665	12,229	13,259	13,369
Teacher Quality/Salary Improvement	150,061	135,558	133,310	-
Teacher Mentoring Program	9,100	13,000	3,900	-
	<u>7,859,562</u>	<u>7,991,274</u>	<u>8,124,676</u>	<u>8,288,319</u>
Federal sources:				
Title I Grants to Local Educational Agencies	178,881	181,078	164,235	168,109
Technology Literacy Challenge Fund Grant	-	-	28,596	-
Improving Teacher Quality - Grants to States	79,517	76,476	-	-
Class Size Reduction	-	-	47,198	37,509
Special Education - Grants to States	-	15,110	26,526	14,750
(Success 4)				
Special Education - Grants to States	79,342	52,173	-	-
(IDEA Part B)				
Vocational Education - Basic Grants to States	15,296	16,006	15,531	13,071
Innovative Education Program Strategies	11,207	11,247	11,599	11,082
Safe and Drug Free Schools and Communities	4,426	10,675	7,752	4,205
Star Schools	6,005	68,995	10,000	-
Grants for Assessments and Related Activities	12,438	10,365	-	-
School to Work Implementation Grant	-	-	-	-
Carol A. White Physical Fitness Grant	19,562	385,438	-	-
Iowa Demonstration Construction Grant	-	100,000	-	-
Comprehensive School Reform Demonstration	82,500	67,500	-	-
Eisenhower Regional Mathematics and Science Education Consortia	-	-	9,916	14,685
	<u>489,174</u>	<u>995,063</u>	<u>321,353</u>	<u>263,411</u>
Total	<u>14,041,520</u>	<u>13,845,572</u>	<u>12,844,754</u>	<u>12,759,894</u>

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Direct:			
Department of Education:			
Carol White Physical Fitness Grant	84.215a	FY04	<u>46,106</u>
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY04	<u>47,871</u>
School Nutrition Cluster Programs:			
National School Lunch Program	10.555	FY04	189,244
School Breakfast Program	10.553	FY04	<u>36,181</u>
			<u>225,425</u>
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6102-G-03	178,881
Innovative Education Program Strategies	84.298	FY04	14,165
Improving Teacher Quality - Grants to States	84.367	FY04	79,517
Grants for Assessments and Related Activities	84.369a	FY04	18,971
Comprehensive School Reform Demonstration	84.332	FY04	81,471
Star Schools	84.203	FY04	5,899
Vocational Education - Basic Grants to States	84.048	FY04	10,853
Safe and Drug-Free Schools and Communities States Grants	84.186	FY04	9,771
Prairie Lakes Area Education Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY04	<u>79,341</u>
Total			<u><u>798,271</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Spencer Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Spencer Community School District:

We have audited the financial statements of the Spencer Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 19, 2004. Our opinion was qualified due to the inability to satisfy ourselves about inventory quantities. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Spencer Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Cost.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved, except 04-IV-E.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-II-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-II-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spencer Community School District and other parties to whom Spencer Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

October 19, 2004

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance**

To the Board of Education of the
Spencer Community School District:

Compliance

We have audited the compliance of Spencer Community School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Spencer Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Spencer Community School District's management. Our responsibility is to express an opinion on Spencer Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spencer Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Spencer Community School District's compliance with those requirements.

In our opinion Spencer Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Spencer Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Spencer Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Spencer Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item 04-III-A in the accompanying Schedule of Findings and Questions Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Spencer Community School District and other parties to whom Spencer Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

October 19, 2004

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.027 - Special Education - Grants to States (IDEA Part B)
 - CFDA Number 84.332 - Comprehensive School Demonstration GrantSchool Nutrition Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Spencer Community School District did not qualify as a low-risk auditee.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-II-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa such makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the district has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

04-II-B Nutrition Reimbursement Error - We noted that the District did not submit all of their monthly meal reimbursement claims on a timely basis.

Recommendation - We recommend that meal reimbursement claims be submitted as soon as possible each month in order to improve the School Nutrition Fund's cash flow.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.332 Comprehensive School Demonstration Grant

Federal Award Year: 2004

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 84.027 Special Education - Grants to States (IDEA Part B)

Federal Award Year: 2004

US Department of Agriculture

Passed through Prairie Lakes Area Education Agency

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

Federal Award Year: 2004

US Department of Agriculture

Passed through Iowa Department of Education

04-III-A Segregation of Duties over Federal Funds - The District did not properly segregate custody, record-keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa such makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - Over the years the District has looked at various ways of dividing duties. As a result, responsibilities of individuals have been altered. We will, however, continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

04-III-B Nutrition Reimbursement Error - We noted that the District did not submit all of their monthly meal reimbursement claims on a timely basis.

Recommendation - We recommend that meal reimbursement claims be submitted as soon as possible each month in order to improve the School Nutrition Fund's cash flow.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

04-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-IV-B Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-IV-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

04-IV-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Scott DeGeest, Board Member Winkleblack's Standard Printing and Design	Office Supplies and Printing	\$10,493
Ross Brockshus, Board President Part owner of Del's Garden Center, Inc.	Repairs and seed	\$ 1,617

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with Mr. Brockshus do not appear to represent conflicts of interest since they totaled less than \$2,500 for the fiscal year. The transactions with Mr. DeGeest exceeded the limit.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.

04-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-IV-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

SPENCER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:
(continued):

- 04-IV-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 04-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 04-IV-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

